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DOV.N - Q4 2021 Dover Corp Earnings Call

EVENT DATE/TIME: JANUARY 27, 2022 / 2:30PM GMT

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PRESENTATION

Operator

Good morning, and welcome to Dover's Fourth Quarter and Full Year 2021 Earnings Conference Call. Speaking today are Richard J. Tobin, President and Chief Executive Officer; Brad Cerepak, Senior Vice President and Chief Financial Officer; and Andrey Galiuk, Vice President of Corporate Development and Investor Relations. (Operator Instructions)

As a reminder, ladies and gentlemen, this conference call is being recorded, and your participation implies consent to our recording of this call. If you do not agree with these terms, please disconnect at this time. Thank you.

I would now like to turn the call over to Mr. Andrey Galiuk. Please go ahead, sir.

Andrey Galiuk - *Dover Corporation - VP of Corporate Development & IR*

Thank you, Tani. Good morning, everyone, and thank you for joining our call. This call will be available on our website for playback through February 17, and the audio portion will be archived for 3 months. Dover provides non-GAAP information and reconciliations between GAAP and adjusted measures are included in our investor supplement and presentation materials, which are available on our website.

Our comments today will include forward-looking statements that are subject to uncertainties and risks. We caution everyone to be guided in their analysis of Dover by referring to our Form 10-K and our most recent Form 10-Q for a list of factors that could cause our results to differ from those anticipated in any forward-looking statement. We undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

With that, I will turn this call over to Rich.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Thank you, Andrey, and good morning, everyone. Let's start on Page 3. We are thankful of the extraordinary efforts of our Dover team members, which enabled us to deliver strong operating results amidst challenging conditions during 2021. We are also grateful to our customers who trusted us with their business while adapting their supply chains and business models to this rapidly changing and demanding environment. The resilience and creativity of our teams and the durability of our customer relationships were the key elements of our success this year, and we are committed to build upon those pillars in 2022 and mobilize to deliver another strong year of performance.

All right. Go on to the quarterly and full year results. We delivered strong and better-than-expected results in fourth quarter and the full year posting organic revenue growth of 11% and 15%, respectively. Our margin conversion for the year was strong, and we delivered segment margin increase of over 200 basis points for the year, driven by volume growth, productivity gains and our center-led enterprise capabilities.

We are satisfied with this accomplishment in the face of the well-chronicled input shortages, supply chain constraints and COVID-driven quarantines and absenteeism that became increasingly challenging during the Omicron period of Q4. As we mentioned in the opening remarks, we battled through as best we could under the circumstances, but we cannot help but be very frustrated by the continuing guidance on mandates and deadlines. It often -- it seems often that we have learned very little in the past 24 months.

We complemented our strong operational execution with value-creating organic, inorganic growth investments. We deployed \$1.1 billion in 9 highly strategic bolt-on acquisitions and also completed the divestiture of our noncore foodservice equipment platform on December 1. These investments advance our deliberate strategy to expand into markets with secular growth opportunities.

Recognizing the recent changes to our portfolio and to better reflect the nature of the markets and customers served by our businesses as well as the contributions to revenue growth and profits, we have changed the name of our Fueling Solutions segment to Clean Energy & Fueling and our Refrigeration & Food Equipment segment to Climate & Sustainability Technologies.

Looking ahead to 2022, we entered the year with constructive optimism despite the ever-evolving operating environment and geopolitical clouds. We believe that growth conditions are still with us but is critical that policies are enacted or not enacted to continue this trajectory. A methodical, monetary tightening is deemed necessary, and I agree that it is.

I would urge caution on the pace of any policy decisions in the regulatory environment or taxation if one wants to preserve GDP expansion trajectory. As COVID and its effects subside, we desperately need policy pragmatism with a bias towards policy that foster economic growth.

Demand conditions across the majority of the portfolio remain favorable as evidenced by our strong sustained bookings in the fourth quarter and throughout the year, with a book-to-bill each quarter above 1, even with the aforementioned double-digit revenue growth. Our backlog of \$3.2 billion is up 84% versus this time last year, which allows us to better plan our capacity production and inventory, a major benefit in today's constrained operating environment.

While we expect these operational challenges in supply chain and labor availability to continue into early '22, we do not expect operating conditions -- we do expect operating conditions and price material spreads to improve as the year progresses.

We believe we are well positioned to deliver robust top line growth, margin expansion and EPS accretion in 2022. We are therefore forecasting full year revenue guidance of 7% to 9% organic growth and adjusted EPS of \$8.45 to \$8.65 per share.

I will skip Slide 4, which provides more detailed overview of the results. So let's go on to Slide 5. Engineered Products revenue was up 16% organically in the quarter as demand remained favorable across all businesses. Vehicle Services posted a strong top line quarter and market indicators remain positive. Environmental Services Group revenue was up year-over-year, with both bookings and backlog remain robust moving into 2022.

Industrial automation demand remained high. posting its strongest bookings quarter of the year, while deliveries were negatively impacted by output challenges in America and Europe. Aerospace and defense posted a solid year-over-year growth with good momentum behind our recent Espy acquisition, the recovery of industrial, which continues with all end markets trending positive.

Despite the heightened demand, margin performance in the segment remains negatively impacted by the combination of input cost inflation and input shortages, with notable impact from COVID-related absenteeism, particularly late in the quarter where we ran at over 20% rates in some instances at the height of Omicron.

In the fourth quarter, Engineered Products was the only segment that had a negative price/cost spread, largely driven by raw materials and logistics costs. This remains our most challenged segment in the current operating environment that we have line of sight to improve margin outlook as the price/cost spread turns positive in 2022. Incremental margin conversion is expected to gain steam through the year as we cycle through inventory and we begin shipping off a strong backlog that was priced in the second half of 2021.

Clean Energy & Fueling was down 4% organically in the quarter against a difficult comparable from 2020 when we saw the high watermark of EMV demand. Additionally, volume was constrained by our customers' construction, labor slowdown and component shortages as well as COVID absenteeism in Europe.

Booking trends in backlog in the above-ground business remain constructive. Based on early market feedback and trajectory, we believe that we have a winning product with the Anthem dispenser. Conversely, demand trends for below ground equipment have picked up in North America, and deliveries in vehicle wash continued their upward trend, most notably in access terminal and controller business that we acquired a year ago.

Our recent clean energy acquisitions had a minimal impact on our Q4 results. However, backlogs in these businesses are strong. Margins were down in the quarter, primarily due to the lower volumes, product mix, absenteeism-driven inefficiencies and lost fixed cost absorption. Full year results in this business were strong and better than we initially forecasted early in the year on robust growth, productivity and favorable mix.

Sales in Imaging & Identification grew 3% organically. The core marketing and coding business was strong, and comparable volume, though short of components and some order pushouts reduced volumes and printers. Our serialization and brand management software business continues to grow ahead of expectations, and we're working diligently to add additional resources here as we integrate and scale the business.

The digital textile business continues its gradual recovery. It was up against a low bar comparable quarter, but it has still not recovered to pre-COVID levels. Q4 margins in Imaging & ID improved by 40 basis points year-over-year as mix and price more than offset cost inflation and input availability issues. Full year results were strong. The segment delivered 8% organic growth and 170 basis points of margin expansion on good volumes and productivity initiatives.

Pumps & Process Solutions posted another strong quarter at 30% organic growth. Revenue for our CPC business was up double digits. We completed a clean room expansion project for this business in December in anticipation of another strong growth year in 2022. Industrial and biopharma pumps were up on broad-based end customer demand across all geographies.

We are pleased with the performance of the flow meter business within Em-tec, which we acquired in 2020. Its biopharma sales have doubled in 2021. Precision Components was up as the business continues its recovering on improving demand in the broader industry exposure.

Polymer processing was up in the quarter due to strong demand for pelletizers and gear pumps as well as strong order rates and recycling equipment and consumables, particularly in the U.S. and China. Margins expanded by a robust 740 basis points in the quarter and 790 basis points in the year on strong volumes, fixed cost absorption, favorable product mix and pricing.

Top line results in Climate & Sustainability Technologies continue to be robust, posting 13% organic growth. SWEP, our heat exchanger business, capped off the year posting all-time records in bookings, revenue and margin and carries a strong backlog into 2022. The business was strong across all geographies, and markets with particularly favorable demand in EMEA for heat pumps driven by regulatory requirements. We have been adding additional capacity in several geographies to meet forecasted future demand.

Belvac, our provider of production solutions for beverage packaging, posted a revenue decline in the fourth quarter on difficult comparable driven by project timing. As you know, this business was up significantly in 2021, part of a multiyear secular shift towards more environmentally-friendly aluminum cans with demand far exceeding the current installed capacity.

Demand in our food retail business remains robust with elevated bookings and backlog levels. Our systems business in the U.S. and Europe continued its robust growth in deliveries and orders for natural CO2 refrigeration systems. Demand for door cases remained elevated as well.

However, we continue to face labor constraints and subcomponent supply shortages that delayed shipments which necessitated intermittent production curtailments negatively impacting margins. We've instituted a number of price increases, which we expect to positively contribute to margins and conversion into 2022.

Margins were flat -- largely flat in the quarter as excellent operating performance in SWEP offset refrigeration headwinds despite the smaller revenue base. This segment demonstrated good progress in 2021 with 22% organic growth after a very modest 3% decline in 2020 and 230 basis point margin expansion despite multiple operational challenges as the year presented. With a strong backlog, we expect a continued robust progress in 2022.

And I'll pass it on to Brad.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Thanks, Rich, and good morning, everyone. Let's go to Slide 6. On the top is the revenue bridge. Our top line organic revenue increased by 11% in the quarter, with all segments except Clean Energy & Fueling posting growth. FX was a 1% or \$12 million headwind to the top line. M&A added \$17 million net to the top line in the quarter, a product of \$26 million from acquisitions partially offset by \$9 million from the Unified Brands divestiture.

The revenue breakdown by geography reflects strong growth in North America and Asia and solid growth across Europe and the rest of the world. The U.S., our largest market, posted 16% organic growth in the quarter on solid trading conditions in industrial winches, vehicle aftermarket, biopharma and polymer processing, while Asia was up 15% organically and growth in biopharma and industrial pumps, marketing coating and heat exchangers.

China, which represents approximately half of our business in Asia, was up 17% organically in the quarter. Europe grew by 7% in the quarter on strong shipments in Precision Components, biopharma and industrial pumps, natural refrigerant systems and heat exchangers for heat pumps, partially offset by order timing in sustainable beverage can-making.

Moving to the bottom of the page. Bookings were up 22% organically in the quarter, reflecting continued broad-based momentum across the portfolio. Bookings helped drive our consolidated backlog to \$3.2 billion, up 15% sequentially, inclusive of backlogs from our recent acquisitions. In the quarter, we saw organic growth across 4 of the 5 segments.

Let's go to the earnings bridges on Slide 7. On the top chart, adjusted segment EBIT was up \$47 million and adjusted EBIT margin improved 60 basis points as improved volumes, continued productivity initiatives and strategic pricing offset input cost inflation and production stoppages. On the bottom of the chart, adjusted net earnings improved by \$34 million as higher segment EBIT more than offset higher corporate expenses and higher taxes.

Deal expenses primarily related to our clean energy acquisitions were \$11 million in the quarter, representing approximately \$0.06 of adjusted EPS headwind. The effective tax rate, excluding discrete tax benefits and gains on the sale of businesses, was approximately 21.7% for the quarter compared to 21.1% in the prior year.

Discrete tax benefits were \$10.3 million for the quarter or \$2.1 million higher than 2020 for approximately \$0.01 year-over-year EPS impact. After tax rightsizing and other costs were \$22 million in the quarter, reflective of our ongoing productivity and rightsizing initiatives, including noncash asset charges of approximately \$16 million.

Now on Slide 8. In 2021, we generated \$944 million of free cash flow, a slight increase over the prior year. Free cash flow conversion stands at 12% of revenue for the year despite an over \$300 million investment in working capital. As we discussed last quarter, we remain focused on delivering against our customers' strong order rates, and we are carrying high inventory levels to ensure we can meet the current demand into next year.

With that, I'm going to pass it back to Rich.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Okay. Thanks, Brad. I'm on Slide 9, which shows our progress in 2021 against the capital allocation priorities we outlined at our Investor Day in 2019. We have a strong collection of businesses, and our first priority is ensuring we can continue to win in the market through organic investments supporting growth capacity, digitization, innovation and productivity.

We deployed over \$170 million in capital expenditure in 2021 towards growth and productivity enhancements as well as maintenance of our asset base. Notably, we invested over \$14 million in digital products and digital and e-commerce, which allowed us to reach our goal of over \$1 billion in e-commerce revenue last year with no touch by customer service. This represents over 10x the volume we processed in 2018, and our 2020 goal is to double our 2021 volume.

Our next priority is inorganic growth. Last year, we deployed \$1.1 billion into 9 highly synergistic bolt-on acquisitions, including 2 larger deals, Acme and RegO, which we closed in December. All these acquisitions enhance our portfolio by increasing our exposure to markets with structural demand growth outlook.

Our pipeline and acquisition capacity remains strong, and we expect to remain active on this front in 2022. Our third priority is to return capital to our shareholders. We again raised our dividend in 2021 as we have done for the past 66 years.

Let's move to Slide 10. We provide more color on some of our organic investments. I won't go into specifics of any of these projects individually, but you'll see that our investments are substantial in size and represent a broad variety of productivity improvement and digitization initiatives as well as investments in capacity expansion and new product development projects. These investments provide compelling financial returns, and our proactive capacity expansions have allowed us to win share in that tight supply market.

Slide 11 includes our current view of the demand outlook and operational environment for 2022 by segment and how margin drivers are expected to trend over time and provides context of how we are thinking about our full year guidance, which I'll get to shortly.

We expect top line and Engineered Products to remain robust based on solid backlog and sustained high bookings across the business. All market indicators in vehicle aftermarket continue to remain positive, with miles driven having fully recovered to pre-pandemic levels and used car prices remaining elevated.

Orders for refuse trucks and software solutions are robust, with new order rates pushing well into the second half of '22. Momentum in industrial automation and industrial winches should continue on the back of a solid bookings quarter with all end markets contributing to growth. Aerospace and defense is expecting growth in positive order trends largely driven by Europe.

We expect headwinds from negative cost to continue in the first half of the year getting sequentially better as the year progresses. We expect this segment to be the only one with negative price/cost spread in the first quarter. Input availability, mostly labor absenteeism from recent Omicron surge, is expected to negatively impact production efficiency in the first quarter but should subside for the balance of the year.

All in, we expect margins for the segment in the first half of the year to largely mirror the second half of 2021 then to improve meaningfully for the full year, driven by volume leverage and pricing.

We expect Clean Energy & Fueling to post low single-digit organic growth for the full year on solid growth in below ground vehicle wash and software solutions. Demand outlook and bookings of our recently acquired clean energy businesses are very robust, and they are off to a good start.

As you know, we don't adjust acquisition-related amortization out of our adjusted segment earnings margin due to sizable acquisition-related amortization charges from our recent deals in this segment. The operating margin will be compressed in the first quarter of 2022. Excluding about \$40 million of incremental deal-related amortization expenses in '22, we expect full year margin conversion to be in line with the broader portfolio.

Demand conditions in Imaging & Identification are expected to continue the positive trajectory into 2022. Our core marketing and coding business is expected to maintain its steady GDP-like growth rate. Serialization and brand protection software should contribute positively on robust bookings and backlog. Digital textile printing is recovering and we expect to take another year or 2 to reach pre-pandemic levels as apparel producers take a cautious stance with new capital outlays. We expect margins in this segment to continue to improve in 2022.

Pumps & Process Solutions should see another year of solid performance. Demand for biopharma applications remains robust, driven by demand for COVID vaccines as well as growth in cell and gene therapies and expansion of mRNA technology to other applications. We are completing the second phase of our clean room expansions in automation to ensure we can keep up with demand, and we have broken ground on the construction of a new facility.

Additionally, our connector business is experiencing robust growth in new thermal applications such as data center and supercomputing and EV charging. Trading conditions in industrial pumps are strong, driven by robust end customer demand. Plastics and polymers equipment business carries a solid backlog into 2022 with good market conditions in this (inaudible), especially in China, the U.S., and recycling solutions.

Precision Components continues its upward trajectory aided by OEM new builds and increasing activities at refineries and petrochemical plants. We expect margin performance to remain robust for the segment on volume growth, operational execution and positive price/cost dynamics.

In Climate & Sustainability Technologies, we expect to post high single-digit organic growth this year driven by its large backlog and sustained elevated order rates. New orders in core food retail business have been healthy across product segments, and the tailwinds from our leadership position in natural refrigerants are driving outsized growth of our CO2 systems business.

As Omicron-induced labor shortages abate in the first quarter, we expect volumes of door cases to recover with backlog stretching well into the second half of the year. Our heat exchanger business is positioned well on strong order rates across all geographies. The Belvac packaging business continues to work through its record backlog. They are booked for 2022 and are taking orders for 2023. We expect to have our new R&D center and full can line completed in the first half of the year.

We expect margins to improve significantly in 2022 as improved volume leverage, positive price/cost dynamics, productivity gains from our automation initiatives and positive product and business mix should more than offset any lingering operational challenges related to component and labor shortages in the first quarter.

All right. So before wrapping up and moving to Q&A, let's try to square the circle here and sum up all the moving parts from our 2021 exit position to our full year guidance. At the opening of this call, I said our results were better than expected. That was not a reference to external consensus estimates but a comment about our operating margin performance versus our internal forecast.

Without the significant Omicron production and productivity losses, which were not in our base forecast, we would have shipped more product in Q4 resulting in higher sales and cash flow but lower consolidated margin on product mix. As a result of this, while we do get the benefit of carrying higher backlogs into 2022, we have not cleared as much higher cost inventory and have not realized all the benefits of past pricing actions embedded in that backlog.

This will result in the calendarization of absolute earnings and earnings growth, and especially segment operating margin being more back-end loaded than a typical year as a result of this delayed backlog products. A few implications of this dynamic. Number one, we have prudent operating margin expectations for Q1 and encourage those modeling quarterly forecast to exercise the same level of prudence.

Number two, it is a good sign if backlogs gradually deplete during the year as it will be driven by higher production performance as labor availability and supply chains improve. And lastly, if both these dynamics play out as forecasted, we can expect inventory levels to drop, supporting increased operating cash flow in 2022.

So let's move to Slide 13, which hopefully removes the quarterly noise and gives us some view of post-pandemic full year performance. Here we provide a bridge between our adjusted EPS in 2021 and 2022. We expect to generate double-digit EPS growth again this year, driven by solid organic top line growth, much of which is currently in backlog, as well as healthy full year margin conversion, and the positive impact from acquisition closed in 2021.

And so let's wrap up on Slide 14 to put our results and guide into a longer-term perspective. Our strategy has driven significant value creation for our shareholders over the last several years as evidenced by the total shareholder return driven by underappreciated top line growth, cumulative margin expansion of 440 basis points, healthy cash flow generation and capital redeployment.

We believe that our playbook offers us significant runway to continue delivering attractive through-cycle returns for the coming years. And with that, let us move to the Q&A. Andrey?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to Scott Davis with Melius Research.

Scott Reed Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research

There was a lot of detail in there. I'd be lying if I said I followed every single word. But maybe we can start with just a little bit more color. It seems like this absenteeism and cost issues kind of lingering into 1Q here. Is it getting -- are things getting any better? Are they just as bad now as they were kind of in 4Q?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Well, I guess -- yes. I guess now that we've disposed with the federal mandate, hopefully. I mean that was not helpful at all. It is getting better. I think that the quarantine period being halved has helped. So it's not as bad as the peak, which is probably in December, but it is lingering somewhat into January. But it's not as bad.

Scott Reed Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research

This cash flow guide is pretty solid. Does that imply there's going to be some work done in working capital? Are you at working capital levels that are kind of more -- I'd say, new normal given the supply chain consensus out there? Or you have some flesh out in '22?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. I mean look, we expected to ship that. Now whether we would have been caught up in receivables, who's to say? My view is we would have expected to maybe have a slight increase in inventory based on the revenue. But our expectation for 2022, if we get this right, which I expect we will, is that we're going to give back that build net of revenue increase for the year. So I expect to do better in working capital in 2022 than we did in '21.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

I would just add, I think we have a modest forecast of inventory drawdown. Depending on how the year progresses, there could be some incremental there.

Operator

We'll go now to Steve Tusa with JPMorgan.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

You guys should change your name to like Dover Technologies or something like that, or soft -- actually not now because the growth is now selling off. So maybe something different. The change in the name is interesting though. Does that mean you're keeping refrigeration?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

It's in our forecast for 2022. Look, at the end of the day is we can't call it food equipment anymore since we disposed of the food equipment business. So by and large, we had to rename it. The fact of the matter is, and I don't want to get cheeky about ESG-driven nomenclature here, is that the fastest-growing portions of that segment are in sustainability technologies. It's SWEP and our CO2 systems in Belvac, which are all driven, we would argue, by a shift to meet ESG compliance, whether that's regulatory driven or driven by other matters. So I get it, it looks a little bit cheeky on our part, but it is what's growing within the portfolio.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

Yes. And then you mentioned -- I think asking us to use prudence in our modeling is a lot to ask, I think. Can you be a little more specific about kind of like first quarter, maybe even second quarter kind of dynamics on sales and margins?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. I think that first quarter will look more or less like Q4. I think that it will move around a little bit segment by segment, and I would imagine a little bit better than Q4. But at the end of the day, some of the headwinds we had in Q4 we're going to carry into Q1. A lot of that driven by, as Scott had asked, the lingering effects of absenteeism, which we're still dealing with a little bit right now.

Logistics costs haven't come down a lot, but more importantly, because of our inability to flush backlog in Q4, what we would have expected to be catching up on price/cost dynamic is a bit delayed. But that's all incorporated into our -- the full year number.

Charles Stephen Tusa - *JPMorgan Chase & Co, Research Division - MD*

Yes. And what do you mean by that is on an absolute basis is what you're talking about?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes, on an absolute basis.

Operator

The next question comes from Jeff Sprague with Vertical Research.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Just back on the clean -- new clean tech segment, whether or not the refrigeration stays or go, I wouldn't expect you to address today, Rich, necessarily. But do you actually see scope to do some additions in that area? You have legitimately transformed the fueling segment, right, with some interesting deals. Are there kind of logical extensions to SWEP or Belvac or other things that are adjacent to those businesses that would be in your M&A pipeline?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

There are. But the beauty of those 2 businesses is the fact that they're so concentrated in terms of the supply base. So there's not a lot of M&A you can really do. But if you look where we've been spending organic capital, we've actually been deploying proportionally quite a bit to SWEP and Belvac on organic capacity expansion.

So I'm not ruling M&A out because there are some interesting adjacencies around it, but what we've been doing is just investing behind growth. And I think that SWEP will be finishing in 2022 in expansion in all 4 of the geographies they participate in, for example. And I think that we put in 15 years' worth of CapEx into Belvac over the last 18 months or so. So it's more of an organic play, I think.

Jeffrey Todd Sprague - *Vertical Research Partners, LLC - Founder & Managing Partner*

Okay. And just on the pumps business, I mean the results really are quite remarkable. To what extent would you say there's, I don't know, temporary COVID benefits running through biopharma? Or do you just see more of kind of a broader wave of investment and displacement of kind of maybe nondisposable technologies and other things driving that business? I guess the question is really just around the sustainability of these growth rates.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. Well, the growth rates are going to come down. I mean let's call a spade a spade here. I mean I think it clocked in for, what, 30% for the year, something like that. So they're going to come down over time. And we don't have that kind of growth rate for that business embedded into our forecast for 2022. We also do not include in our forecast any margin dilution because of COVID demand roll-off because we think that the fundamental demand for those products is solid.

And I would have hoped that maybe Danaher could have done a better job talking about it since they're a market participant in the same space. We believe that the growth rate will come down as COVID demand begins to roll off. We don't envision it going negative in '22 nor do we think that margins are going to be negatively impacted.

Jeffrey Todd Sprague - Vertical Research Partners, LLC - Founder & Managing Partner

And maybe just last one, just back on price/cost. So it sounds like the entire company should be price/cost positive in Q2. Is that correct? And when you're talking about price cost, I guess, flipping into the positive, are we talking dollars, margins or both?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

The answer to the first question is yes. So the entire company in Q2, and yes again in terms of margin enhancement, especially in Engineered Products.

Operator

Our next question comes from Andrew Obin with Bank of America.

Andrew Burris Obin - BofA Securities, Research Division - MD

Just a question in terms of just focus on biopharma and just internal organic CapEx opportunities versus M&A. Just how much growth can you drive organically by expanding biopharma capacity? And just thinking beyond COVID, do you think there is a real opportunity there?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

I hope so, since we're greenfielding a new facility for it right now as we speak. Yes, look, I mean we were not able to keep up with customer demand in '21. I think that we did better than some of our competitors, meaning I think that we captured growth opportunities. But even with that capture, I think that we were, at certain points of the year, disappointing our customers with our ability to serve. So that was what drove the decision about expanding capacity.

And I think we greenfielded the facility up in Minneapolis in 2019. It's sold out, so that's why we're expanding there. And in our disposable pump business in Germany, we are bringing assembly operations with the expansion of clean room in the United States for that particular product. So our preferred path is inorganic investment to drive growth because that's where our returns are the highest.

But having -- and as we've discussed many times, look, it's no secret that these are really interesting pieces of the market, and they attract very high pricing. So we're going to have to be selective on the M&A side. I think we have some interesting things that we're looking at, for sure. but I think that we can do this simultaneously inorganic and organic.

Andrew Burris Obin - BofA Securities, Research Division - MD

Got you. And just a question on your business model. A, you're growing the e-commerce sales, I think, over \$1 billion. I imagine you're getting some sales efficiencies. But just, a, how far can you take this model? And b, is there a generally greater structural ability to go direct to customers versus through distribution post-COVID?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Let me answer the second one -- second question first because it's easier. No, I don't think there's -- our plan here is not to go around distribution. Our plan here to put in e-commerce platforms is a couple of things, right? I mean it's a cost savings issue. But I think clearly, the real benefit of moving to e-commerce platform is the S&OP process gets a lot slicker, inventory management gets a lot better and you can centralize pricing rather than having distributed pricing around the world. So yes, it's a bit of cost savings, but the real benefit is operational over time, and it's not a kind of go-to-market platform, and we expect to continue to sell through distribution.

Operator

The next question comes from Andy Kaplowitz with Citigroup.

Andrew Alec Kaplowitz - *Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head*

Rich, maybe you can give us a little more color into your confidence level that margin can turn more positive in DEP. Do you need your productivity projects in ESG and VSG to complete before you get the margin turn? And then the business obviously is steel heavy. So with steel rolling a bit here, does it give you more confidence in the turn into just a lag as some of the business is backlog-driven?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

We were negative price/cost for 2021 because of the catch-up on the raw material versus price because the cycle time in terms of the inventory turns is just more difficult, putting the labor issues aside. So on that alone, we've priced for raw materials inbound through the year, which we believe rolls positive in Q2 based on our forecast for production performance.

And what that does, all things being equal, is go back to historical operating margins that you would see from ESG and VSG back in the 2019 pre-COVID period as kind of expectation #1. The investments we're making are longer-term investments that should be accretive to that 19 kind of benchmark, but we will get that over time. So we may see some of that in '21 -- or in '22, but that's going to take some period of time. We're reoutfitting both of the main plants for those businesses.

Andrew Alec Kaplowitz - *Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head*

Got it. And then I'm going to ask you the old bookings question in the sense that bookings did not slow as you thought. I think we all understand that bookings will slow. But do you see an environment at least right now where the high level of bookings you're seeing is relatively sustainable? And how do we think about whether there is conservatism in your '22 organic guide versus the backlog that's up obviously over 80%?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Nothing like going first. But I bet our revenue guide is not conservative when we're all said and done here. But I'll take your question anyway. Look, bookings are going to slow. I mean we've got businesses that are relatively short cycle that are booking into Q3.

I mean it's just inexplicable to me that there's any even need for our customers to go beyond there at this point, right? I think we're going to get it. And it better happen. Because if it doesn't happen, that means that supply chain issues are not resolving themselves in '22, and we expect that to get progressively better. So strangely, it's going to be a good thing if bookings decline in '22 relative to the rate that we saw in '21.

Operator

We'll go now to Mig Dobre with Baird.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just sort of sticking with this theme on supply chain. I'm curious as to what you're seeing as far as your own components and your own purchases in terms of availability. I would imagine that EP is probably the area where you're seeing the biggest challenge, but I'm kind of curious: one, how that's changing; and two, some of the other segments that might be experiencing this as well.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I don't think that there's any segment that's immune to it. It's just if you step back and you think about the nature of the product, anything that's capital goods-like has got a lot of raw material exposure, and it's got a lot of complexity because just the size and the dimension of the product as opposed to something like a connector that's made out of injection-molded plastic at the end of the day. That's more of a capacity constraint and maybe some logistics.

So the locus of the issue on supply chain is very much within Engineered Products, but it's not to say end-to-end refrigeration, because that is more -- refrigeration in terms of its business model is more applicable to what goes on in Engineered Products than anything else. So it's not as bad as it was, and it's getting better. We would have liked to see it get better in terms of logistics cost to come down, and we're seeing some of that, but we'd like to see that curve get better.

We are -- if you look at our working capital number, we have built a bunch of inventory. And the reason we built -- partially, the reason we built all that inventory is to get around the intermittent curtailments of production, which really cost us a lot of money. So our goal here is we're assuming that production curtailments are going to come down a lot versus 2021 in '22, and then logistics and supply chain will gradually get better through the year. Those are the underlying assumptions.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. But it sounds like you're seeing some of this already. It's not just aspirational, hoping for it. Some of this is getting a little bit better.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

I mean we can look at the futures on raw materials and steel and bar and everything else. Those are -- we can buy those inputs at lower prices than we have them in inventory right now.

Mircea Dobre - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And related to that, my final question here. How do you think about pricing beyond 2022? Because obviously, you have raised prices because of raw material inflation. Does that imply that you're going to have to give pricing back in '23 or not?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

That's a good question. And our expectation is we did not reprice our backlog as it was built, to the detriment of our margins nor will we reprice our backlog the other way as input costs come down.

Operator

We'll go now to Julian Mitchell with Barclays.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

Maybe just wanted to circle back to the sort of incremental margins. You have that 30%-odd placeholder for the year. From a firm-wide standpoint, it sounds like understandably, that starts out the year at the lower end and then builds. But maybe looking at it from a segment standpoint, should we assume that the incremental margins by division sort of tally up reasonably closely with the differing organic growth profile this year?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Let me answer it the best I can. I think the businesses that had decremental margins in -- between -- in '21 are where we expect proportionately the biggest recovery in '22. We -- so I think if you go back and look at the granularity of the comments that -- in that long-winded explanation I gave at the beginning, so -- and then we don't expect for margins to come down in some of our higher performing businesses. So the incremental margins there will be at book margin.

We don't give out growth rate by business and door segment, so you're going to have to make some assumptions there. But we give you backlog and everything else, and we give you the full year. So I think it's safe to say we expect robust incremental margins where we suffered in '21, and we expect book conversion on revenue growth in the businesses that did well in '21.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

The only thing I would add to that is that we've got to be a little bit -- Andrey and Jack could help with this. There's a little bit of effort around the acquisitions' impact on conversion. So when we give a range there, we think about that range pre those impacts that we've disclosed in the script we had, which was \$40 million for the year. Depending on how you're doing your calculations, that can impact conversion.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Very good point.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

And then maybe my second question, just when we're looking at sort of pricing, you talked about pricing beyond 2022, but maybe stick with 2022 for now. I suppose it was a 2.5 or 3-point tailwind to revenue firm-wide last year. Just wondered within that 8% organic sales growth midpoint guide for this year, how much of that roughly is price? And any big sort of first half, second half difference on that price tailwind?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. We had a long discussion here preparing for this call that, that question was going to come. And I think my answer to that is I'm not going there. You're asking me to predict mix into the future. I think that we have it here. At the end of the day, I just don't think it's meaningful in terms of putting a placeholder out there.

The fact of the matter is we've got robust organic revenue growth. A part of that is price. But does it really make a difference if it's 2.25% or 1.5% at this juncture? I would argue not. And beyond '23, I know that Mig asked the question about pricing in the future, we're not prepared to have that discussion yet.

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Yes. On the other hand, too, our forecast does not assume that we need to get price in the back half of the year. I mean we've been putting price in, as you know and as you track in the quarterly results that we put out, but we're not sitting here saying to hit this forecast, we need to have big price increases in the back half. That's not in the forecast. And I think that what that means is we'll be proactive on price when we need to.

Julian C.H. Mitchell - *Barclays Bank PLC, Research Division - Research Analyst*

That's very helpful. Maybe tell us what was the price in maybe the fourth quarter then? Apologies if I missed that.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Julian, I'm going to send you to the back office to go and deal with that. I mean, we're going to start carving this into pieces here.

Operator

Next question comes from Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

So Rich, maybe -- I know you guys don't typically give margins by segment. You talked about the Climate & Sustainability Technologies segment seeing significant margin progress this year. Historically, you have had that kind of mid-teens target out there for the retail part of your business.

I'm just curious, like, any other color that you can kind of give us on how much progress you think you'll make in 2022? And then also just Unified Brands, was that margin dilutive to your business? I know that came out -- that's coming out this year, too.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

It was margin dilutive to the consolidated business. It was accretive to -- would have been accretive to Q4, I believe, if it was still in but...

Brad M. Cerepak - *Dover Corporation - Senior VP & CFO*

Small impact.

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes, a small impact at the end of the day. Look, yes, we expect to hit our margin target for the refrigeration business in 2022. That's embedded in the forecast, and we've expanded -- we expect robust growth out of both SWEP and Belvac in '22, both of which are accretive that -- all of that revenue is accretive to margins.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

No, that's great. So maybe just following on my follow-on question, just staying in this segment. I mean the backlog that you're building in the segment is pretty incredible, right? You're at \$2.3 billion. Like I don't think anybody has got any forecast that are anywhere close to that type of revenue number in the out years. I'm just like -- I'm trying to understand like how to think about this segment on a multiyear basis from a top line perspective based on what you're building today?

Richard Joseph Tobin - *Dover Corporation - President, CEO & Director*

Yes. Well, look, on the refrigeration business, conceivably, we're going to get to the point where we'll cap off the growth in traditional door case and then put all of our muscle behind CO2. CO2 is the part that's inflecting right now, and we'll probably have more color on that once we get into the mid-'22 of what we think that can do going forward.

Belvac is clearly going to be a story of building the backlog, so we can just watch that as we progress through the year. And I think we'll do -- as we go through the year, what we've done in the past and break Belvac backlog away from the segment so you can see it.

And then in SWEF, look, we've been doing very, very well in Europe on heat pump technology. We expect that technology to be brought to the U.S. And as part of that, that's why we're expanding capacity today in advance of that. So to the extent that we're deploying the capital means that we expect that business to continue its growth trajectory over time.

Operator

We will take our final question today from Brett Linzey with Mizuho.

Brett Logan Linzey - Mizuho Securities USA LLC, Research Division - Executive Director

I just wanted to come back to the internal manufacturing inefficiencies that took place in '21, Obviously, just given the environment, that's expected. But you isolate those headwinds versus the raw mats and logistics inflation that you saw? I would imagine there's some nonrepeat there. Just trying to get a sense as to what that number looks like.

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

Yes. It's a meaningful number. It's a large driver of the margin impact on Engineered Products and what was DRFE and I can't remember the new name after all of this. And anyway, so -- but sizing it, maybe we can get back to you, it's meaningful, right? And that's part and parcel to why we think that we can expand profits on an absolute basis in '22 as much as we can because we took a lot of hits by curtailing production, which really is outside of the price/cost dynamic. That's just absolute lost fixed cost absorption that goes with it.

Brad M. Cerepak - Dover Corporation - Senior VP & CFO

Well, it's meaningful on the top line and on the earnings line. And I think Andrey can work through that with you.

Brett Logan Linzey - Mizuho Securities USA LLC, Research Division - Executive Director

Okay. Yes, great. No, I was just trying to square the 30% incremental with price/cost positive with these nonrepeats. So it seems like maybe some cushion in the guide.

Just back to the e-commerce looking to double that. I missed the time frame you said in which you'd like to double those sales. And just given the lower cost to serve, what kind of incremental margin should we be thinking about as you take that number up?

Richard Joseph Tobin - Dover Corporation - President, CEO & Director

We are -- we did \$1 billion in '21, where our goal is to do \$2 billion in '22. And as I mentioned before, it's not really cost takeout. It's not the advantage here. The advantage is across the entire complex, meaning inventory management, the ability to do pricing centrally, the ability to do dynamic pricing, SKU management.

So you're just going to have to look at that as a portfolio move, and it's part and parcel to us extracting synergy across the portfolio through those initiatives rather than trying to parse it by operating company by segment.

Operator

Thank you. That concludes our question-and-answer period and Dover's Fourth Quarter and Full Year 2021 Earnings Conference Call. You may now disconnect your line at this time, and have a wonderful day.

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